

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

COLUMBIA, SOUTH CAROLINA
[*Hearing Held in Callawassie Island SC*]

HEARING #10707**AUGUST 8, 2005****7:00 P.M.**

DOCKET NO. 2005-87-W/S: *Application of CUC, Incorporated for Approval of new Schedule of Rates and Charges for Water and Sewerage Service Provided to its Customers at Callawassie Island and Spring Island in Beaufort County, South Carolina.*

HEARING BEFORE: Randy MITCHELL, CHAIRMAN, G. O'Neal HAMILTON, VICE CHAIRMAN; and COMMISSIONERS John E. "Butch" HOWARD, Mignon L. CLYBURN, and C. Robert MOSELEY.

Legal Advisor to Commission: F. David Butler, Esq.

STAFF: Charles L.A. Terreni, Chief Clerk/Administrator, Jocelyn G. Boyd, Deputy Clerk, Joseph Melchers, Esq., Chief Legal Advisor, Dr. James B. Spearman, and Philip Riley.

APPEARANCES: Steven G. Mikell, Esq., representing CUC, INCORPORATED, Applicant.

Shannon Hudson, Esq., representing THE OFFICE OF REGULATORY STAFF, Intervenor.

TRANSCRIPT OF TESTIMONY AND PROCEEDINGS

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1 CHAIRMAN MITCHELL: I'll call the
2 night hearing to order. And I certainly
3 appreciate the attendance we have here.
4 We will do the introductions up here at
5 the head table and then Mr. Butler will
6 give you the rules. When you come up and
7 speak we certainly want to hear everyone.
8 We want everyone that attends to please
9 come up and speak. And don't feel like
10 you're being rushed in any manner. We
11 drove down here to hear from you all. And
12 at this time I'm going to introduce Mr.
13 David Butler who's the senior counsel with
14 the Commission. Mr. Butler, if you will
15 go over the rules for us, please.

16 MR. BUTLER: Yes, sir. Mr. Chairman,
17 I'll be glad to do it. We want to welcome
18 you again here tonight. It's nice to be
19 in such a lovely setting for this night
20 hearing. This is the night hearing in
21 Docket No. 2005-87-W/S, which is the
22 application of CUC Incorporated for
23 approval of new schedule of rates and
24 charges for water and sewerage service
25 provided to its customers at Callawassie

1 Island and Spring Island in Beaufort
2 County, South Carolina. And what we're
3 going to do in just a minute after some
4 preliminaries is call the list of names
5 and witnesses here that signed up to be
6 heard tonight. What we will do is bring
7 you forward when your name is called, come
8 forward to the podium here at the front of
9 the room. We will have you sworn in, and
10 what you say will go into the record of
11 this case. This is part of the case. And
12 everything you say will be taken down by a
13 court reporter over here to my left and
14 will go into the record of this case. I
15 might also say that you will be subject to
16 questions from the parties in this case
17 and possible questions from the
18 Commissioners, as well, when you come up.
19 Again, I might just say that if you speak
20 tonight then you can't really speak at the
21 hearing in Columbia. So keep that in
22 mind. You get one chance. Another thing
23 is, if someone does say something you want
24 to say and you think they said it pretty
25 well and you decide when your name is

1 called that you don't want to speak
2 anymore, that's fine. You can just raise
3 your hand and say, I decline to speak for
4 whatever reason.

5 Another point is that this is not
6 really a time to ask the Commissioners
7 questions but really is a time for you to
8 be heard on this subject of this rate
9 increase proposal. I do note that we do
10 have representatives of CUC here with us.
11 Mr. Burnett is over at this table. Mr.
12 Burnett, if you can just kind of raise
13 your hand. He will be glad to speak with
14 you after the hearing is over about any
15 personal matters you have. We also have
16 representatives for the Office of
17 Regulatory Staff with us. If you can kind
18 of make yourself known, please, by raising
19 your hand. They will also be glad to talk
20 with you after the hearing is over about
21 any individual questions that you may
22 have.

23 Again I might say when you come
24 forward to speak to the Commissioners,
25 please understand this will be your

1 opportunity to tell them your opinions on
2 this rate increase. Under the state law
3 you do not communicate directly with them
4 about your opinions face to face, that's
5 called ExParte communication, but in
6 hearings such as this you can come forward
7 and make yourselves known and make your
8 opinions.

9 So Mr. Chairman, that does take care
10 of the rules for the proceeding.

11 CHAIRMAN MITCHELL: Thank you, Mr.
12 Butler. And I want to introduce the
13 Commissioners at this time. To my far
14 left we have Butch Howard. And seated by
15 him we have David Wright, and Bob Moseley
16 to my left. To my far right is Mignon
17 Clyburn. And to my close right is O'Neal
18 Hamilton, and he is Vice-Chairman of the
19 Commission. My name is Randy Mitchell,
20 and I'm the Chairman of the Public Service
21 Commission.

22 As Mr. Butler stated we certainly are
23 glad to be here. We're glad to be in this
24 beautiful setting. And we certainly came
25 here to hear you-all's comments on this

1 case and just feel free to tell us what's
2 on your mind and not feel rushed in any
3 manner.

4 At this time I would like Mr. John
5 Adams to come forward. I think he wanted
6 to say a few words.

7 MR. ADAMS: I just want to make an
8 announcement. The proposed rate increase
9 does affect the Callawassie Island Club
10 and Property Owners Association, as Mr.
11 Butler referred to. You can only speak at
12 one of these meetings, either here or
13 September and both entities have chosen to
14 speak in September. And therefore we will
15 not be speaking tonight.

16 CHAIRMAN MITCHELL: Before we get
17 started, we do have a Commissioner not
18 present tonight. That's Commissioner Lib
19 Fleming from the Greenville area. And Lib
20 called me earlier and she feels very ill
21 tonight. She would have loved to have
22 been here with you, but wanted me to
23 express her regret for not being here.

24 So at this time we will get started.
25 Mr. Butler, if you'll call our first

1 witness.

2 MR. BUTLER: Yes, sir, Mr. Chairman.

3 First witness tonight will be Mr. Tom

4 Bayless. Will you come forward, please,

5 sir?

6 **TOM BAYLESS,**

7 having been first duly sworn, testified as follows:

8 A My name is Tom Bayless. I live here at Callawassie at
9 51 Callawassie Club Drive.

10 Good evening, ladies and gentlemen. When I opened
11 my May water and sewer bill from CUC, Incorporated, I
12 noticed that they applied for a rate increase, I wasn't
13 surprised because we haven't had an increase for a number
14 of years. Then I calculated the impact on my bill at
15 home, and I was pretty taken back. My household, there's
16 just the wife and I, we use approximately 2500 gallons a
17 month. Under their proposed increase my water and sewer
18 bill are going to increase by 116 percent. My guess is
19 that the average usage amongst households is probably
20 around 5000 or 6000 gallons. This is just household
21 numbers, not the irrigation system. There are people
22 out there that will pay approximately 90 percent more.
23 Even those who use 20,000 gallons, and I doubt that we
24 have very many residents that do that are still going to
25 pay almost 50 percent more for their water and sewer. To

1 me that kind of increase is outrageous. I think we can
2 safely presume that since CUC has not asked for an
3 increase since 1993 that A, they may have not needed one,
4 and B - or B, could not justify increase to yourselves.
5 While they purport to have shown a loss in the last two
6 years, if you look at their overall finances without all
7 the adjustments you will see only a paper loss. I don't
8 pretend to understand why all of the adjustments are
9 allowed, but obviously they are. If there is a true
10 loss, they are a business, and they should not be able to
11 recoup it all in one year on the backs of their customer
12 base.

13 In Mr. Burnett's testimony he has very carefully
14 crafted his answers to the questions concerning the
15 service area, he intimates, through the quoted home
16 prices, that we are all wealthy and can certainly afford
17 this huge rate increase. I will tell you now that my
18 home has been assessed at slightly under \$300,000 by
19 Beaufort County in the latest pre-assessment that you
20 probably heard about, and my wife and I live basically on
21 a fixed income. Such a large increase certainly has a
22 major impact on our budget. I'm sure that a number of
23 other residents here on Callawassie are in similar
24 situations. It would be unfair to base any decision on
25 the proposed increase on the resident's income and net

1 worth.

2 Mr. Burnett has stated that consumer consumption is
3 down. I think this is directly attributable to
4 irrigation usage, because his customer base continued to
5 grow by 15 or more households per year. Later he claims
6 that his company has been adversely impacted by the drop
7 in irrigation usage, presumably due to the wet weather we
8 had this summer. I don't understand how his customers
9 should be held accountable for the vagaries of the
10 weather. We certainly weren't given rebates for the
11 drought years when irrigation was at its height. I
12 submit that fluctuations in the irrigation water usage
13 should not be included in your deliberations on the
14 requested rate increase.

15 He further claims that the customers are better off
16 financially with a large increase rather than a number of
17 small ones. I don't believe that for one minute. You
18 and I both know that had there been justification for a
19 rate increase in the past, he would have filed for it.
20 So now we come to the point where he does have some
21 justification. Is an average increase to the customer
22 base of approximately 90 percent justified? I think not.
23 All of you know as well as I we are individuals, and we
24 are all impacted by not only the fees that we pay, but
25 the fees on the association and on the club.

1 Mr. Burnett brags about his service, but there are
2 several areas on the island that his people have torn up
3 that have been sitting for weeks or months without any
4 effort to repair the damage.

5 While Mr. Burnett may be entitled to some increase,
6 we urge you in your deliberations to look only at the
7 real need, as well as the impact on his customers and not
8 give him the outrageous increase he has asked for. I
9 thank you very much for your time and attention.

10 CHAIRMAN MITCHELL: Thank you. Do we
11 have any questions? Commissioner Clyburn?

12 COMMISSIER CLYBURN: Just a couple of
13 questions.

14 EXAMINATION

15 BY COMMISSIONER CLYBURN:

16 Q Would you spell your last name?

17 A B-A-Y-L-E-S-S.

18 Q Also, I would like to ask you, are you a permanent
19 resident?

20 A Yes, I am.

21 Q And how long have you lived on the island?

22 A Since 1998.

23 Q And in terms of, you talked mostly about the rate impact.

24 You also mentioned something about the property income.

25 What is the water quality and what have you? Can you

1 give me an overview of your relationship with the
2 enterprise.

3 A I think it occurs throughout the low country this time of
4 year that there is - algae gets in the water and that
5 sort of thing. I don't think that it is from impurities
6 but every once in a while the water will smell, but I
7 think that's normal for much of this part of the world.

8 Q How is your water pressure and -

9 A Well, I don't have any way of - I didn't measure it, but
10 it does seem to me like water pressure is lower than it
11 was when we first moved here. But I have not measured
12 it, so I can't say that's a fact.

13 Q Okay. Thank you.

14 EXAMINATION

15 BY CHAIRMAN MITCHELL:

16 Q So you spoke some about not repairing the soil. Was that
17 some remark that you made as far as getting things back
18 to normal?

19 A Yes, sir.

20 Q Can you tell us a little bit more about that, sir?

21 A I'm sorry. I know they worked on one of their lift
22 stations out on Callawassie Drive. And there are tire
23 tracks in there that are quite deep. And the excuse has
24 been that it's been too wet. Well, when you put
25 something that deep in the low country, the water is

1 going to accumulate and it's going to stay wet with the
2 wetness we have, but if somebody had gone in there with a
3 small dozer and filled in the tire tracks I think the
4 area would have dried out and the site could have been
5 repaired and we wouldn't have the eyesore.

6 There's another one where the - within the last
7 month or so, it had a failure in a system over on Winding
8 Oak Drive. It was partially repaired, and it's been
9 sitting there for quite a number of years.

10 CHAIRMAN MITCHELL: Thank you, sir.

11 Commissioner Wright?

12 EXAMINATION

13 BY COMMISSIONER WRIGHT:

14 Q Good evening. Mr. Bayless, if I understand you in your
15 presentation you made a comment about - you made a
16 statement about addressing the real need. Can you
17 explain a little bit more what you meant.

18 A Well, the - I don't know about our finances, because I
19 don't know what adjustments are allowed and that sort of
20 thing. But if there is truly a need on the part of CUC
21 for a rate increase, I believe they are probably entitled
22 to a rate increase. But at the percentage that it is, I
23 know they didn't - the cost of water is increased by
24 something like 17 percent. That's a far ways from a 90-
25 percent increase in our bill.

1 Q I just didn't know if you had any more of a definition of
2 that.

3 A No, it's just something that you people have to determine
4 as to what legitimate rate increase should be assessed.

5 COMMISSIONER WRIGHT: Thank you.

6 CHAIRMAN MITCHELL: Thank you, sir.

7 THE WITNESS: Thank you.

8 MR. MIKELL: Sir, we have one question.

9 CHAIRMAN MITCHELL: Yes, excuse me.
10 I'm sorry. I meant to say that when we
11 started that you all would be subject to
12 questions of any of the parties.

13 MR. MIKELL: Mr. Bayless, the
14 problem you were talking about on Winding
15 Oak Road, was that with the asphalt on the
16 road?

17 THE WITNESS: Yes.

18 MR. MIKELL: Are you aware that's
19 been repaired?

20 [FROM THE AUDIENCE]: Today.

21 MR. BUTLER: Folks, please, no help
22 from the audience. You hear that on Wheel
23 of Fortune a lot, but that goes to the
24 problem we've got. We've got a court
25 reporter and she can only take down what's

1 said right from the stand. I appreciate
2 it, thanks.

3 THE WITNESS: I'm sorry. I didn't
4 know it had been repaired today. I was in
5 my office in town today and did not get a
6 chance to be on Winding Oak Drive.

7 MR. MIKELL: I just wanted to
8 clarify that.

9 CHAIRMAN MITCHELL: Thank you,
10 sir.

11 (OFF THE RECORD DISCUSSION)

12 MR. BUTLER: We would ask that the
13 last gentleman who spoke, would you
14 identify yourself for the reporter,
15 please?

16 MR. MIKELL: My name is Steve
17 Mikell. My last name is spelled M-I-K-E-
18 L-L.

19 MR. BUTLER: Thank you, sir. I
20 would like to call Mr. Dave Drury, please.
21 Dave Drury?

22 DAVE DRURY,
23 having been first duly sworn, testified as follows:

24 A David W. Drury, 28 Chechessee Circle here in Okayie,
25 South Carolina.

1 Before I get started I did make some extra copies.

2 I'll pass those up. I want to thank you for coming down
3 here and taking the time to be with us. And while she's
4 passing that out, I just want to characterize this as
5 being more things for you to consider, and I don't really
6 want to go out on a ramp here. If you see me doing that
7 please rein me in.

8 The first piece of paper that she should be handing
9 out to you is simply a table that shows the monthly water
10 usage, what the current rates are for both water and
11 sewer and what the proposed rates are for water and sewer
12 and what the percentage increases will be. What I really
13 did there was just threw the equations into Excel and
14 printed the page. If there are any - these are the
15 numbers as I computed them. I believe they are correct,
16 but I can stand to be corrected.

17 The second page that I'm hoping she will pass up to
18 you soon is basically similar information, but in that I
19 also included some Beaufort and Jasper rates as I
20 understand them from a newspaper article and some other
21 things that I heard. What I have included in the
22 Beaufort-Jasper rates was the \$5 base fee on both water
23 and sewer, a rate of \$3.32 per thousand on water rate and
24 \$5.30 per thousand on sewer rate. A little later on
25 there are some plots of those, and we'll go through that

1 in just a moment.

2 I did a —

3 CHAIRMAN MITCHELL: Speak up just
4 a little bit for us.

5 A THE WITNESS: I'm sorry. I want to head into just a few
6 things here of just some things that are absent that
7 perhaps it would be interesting to the ORS or the Public
8 Service Commission.

9 First of all, I thought the applicant should clarify
10 the methodology used to arrive at gallons the claim
11 under-reported by a faulty Beaufort-Jasper Water Sewerage
12 Authority meter, and there's a reference to their
13 replying on that page. I don't know how they got there
14 from the information that's been provided so far.

15 The next page is the applicant states the previous
16 rate increase in 1992 or '93, whatever the date is, and I
17 apologize for any typos I may have. It resulted in a
18 negative operating margin of nearly 52 percent. Again,
19 as Tom indicated, the company survived and remained
20 solvent, apparently cash flow positive, for most of the
21 intervening 13 years. I don't know how to do that, so I
22 don't see how those two seemingly contradictory
23 statements could be true. I'd like some more information
24 on that, please.

25 On the next page the applicant states the infrequent

1 rate increase requests result in an overall savings to
2 the customer. As Tom also pointed out, while it is true
3 that the costs of rate filings are lessened, this
4 practice makes the test year comparisons or using one
5 test year comparison of little use, because you really
6 have to look at it over the entire period. The practice
7 places an undue burden on the customer early in the
8 period between rates, who may depart and may never recoup
9 their overpayment.

10 The applicant notes that costs have escalated
11 recently with the addition of a 401(k) plan, employee
12 health care plan, increases to purchased water and sludge
13 removal and the sale of, and I don't know what to call
14 it, let's just say CBU shifting some of the fixed costs
15 that they incur to CUC.

16 Thus, CUC's cost increases are not linear with time
17 and yield the appearance, at least, an excessively high
18 CUC rates for a substantial portion of the intervening
19 years between rate increases, not the nearly 52-percent
20 margin as states.

21 I think the applicant should clarify the logic used
22 due to the meter actually being faulty and under-
23 reporting the flow from the Beaufort Jasper Water Sewer
24 billings were included in one of the packets of
25 information for January through May, 2004. It appears

1 possible, at least to my eyes, that the high flow portion
2 was simply blocked, and all water flowed through the low
3 flow portion of the meter was accurately recording water
4 consumption.

5 I also think that the applicant should provide
6 greater detail of business utilization for the Lexus SUV.
7 I think the applicant also needs to detail the business
8 case justification and circumstances necessitating the
9 two apparently above-market rates made by CUC - made to
10 CUC by the principals of the company.

11 The applicant wishes to include fixed asset
12 depreciation into operating costs for rate setting
13 purposes to cover the fixed assets from the plant that
14 has already been depreciated according to the balance
15 sheet of \$4,223. If you incorporate depreciation for the
16 rates into your current rate setting proposal then very
17 quickly those assets will be valued down to zero for
18 books, and we'll end up paying for depreciation on assets
19 already depreciated to zero.

20 The 2004 Range Rover was jointly purchased by CUC
21 and CBU. CBU was sold, and I would like to argue that
22 that gave Mr. Burnett compensation for CBU's interest in
23 the vehicle. And I don't see how the CUC customers
24 should have to pay for this half-interest again. And
25 therefore, I would suggest that at least half of those

1 expenses should be excluded from CUC's operating costs.

2 I'm trying to hurry along here. I know we don't
3 have all night. I don't understand what happened to its
4 capitalization and sources of capital funding. This
5 might be something that more of us might want to delve
6 into. In addition to the land donation, what other
7 contributions did the developer of Callawassie and Spring
8 Island make?

9 Just a little further comment on Tom's point, the
10 applicant testified to CUC being adversely impacted by
11 lower irrigation utilization, particularly in 2005. A
12 surprising portion - this implies that disproportionate
13 profits were linked to water sales. And 2005 it has been
14 unusually wet.

15 To grant rate increases based on one wet spring is
16 not part of the test year and will yield extraordinary
17 and unjustifiable profits upon a return to normal and dry
18 conditions. A more equitable solution might be something
19 that was recently done by Beaufort-Jasper Water and
20 Sewerage Authority, who more closely matched water and
21 sewer rates to the costs associated with each. To that
22 end, another piece of paper that should make its way to
23 you is a copy of the Beaufort-Jasper article that looked
24 into that. And they actually said that that's what
25 Beaufort-Jasper was trying to do.

1 And last but not least as promised I made you
2 some plots of - and I'm sorry, they are kind of busy, but
3 they are in color, what the current rates are for CUC,
4 what the post rates are, and what if you actually went to
5 Beaufort-Jasper rates if we would do it. Now, the
6 article mentions that the Beaufort-Jasper rates are
7 capped. I'm not sure that's a real good idea because we
8 will have - you don't have any conservation with that.
9 So I would ignore any caps that they wanted, right or
10 wrong. So I left that out of the plot. And then the
11 second page of that package was just a plot of what the
12 percentage higher than the similar area - or another
13 company in this area is charging for water rates. And I
14 just think that what they've asked for is not entitled to
15 them.

16 Thank you for your time. Any questions?

17 CHAIRMAN MITCHELL: Yes, sir. Any
18 questions from the parties? Commissioner
19 Clyburn?

20 EXAMINATION

21 BY COMMISSIONER CLYBURN:

22 Q How long have you lived on the island?

23 A I'm a permanent resident. I've been here since 1992,
24 December of 1992.

25 Q And I'll ask you the same question as Mr. Bayless, can

1 you give me any feel about water quality issues or other
2 types of - other types of service?

3 A I have not had any service issues. We do have a water
4 softener in the house. The only time I've ever had to
5 call, I thought I had a water pressure problem that might
6 have been theirs, coming out of his line. But I had a
7 leak in an irrigation pipe plus I had a need where the
8 water softener was past its prime. Marshall came right
9 out and treated me very well, and I had absolutely no
10 complaints on that side. You've done a nice job, folks,
11 so I have no complaint there.

12 CHAIRMAN MITCHELL: Any other
13 questions? Yes, sir, would you like these
14 to be included as one completed exhibit
15 and entered into the evidence of this
16 case?

17 THE WITNESS: If you decide that,
18 that's fine. I have given a copy already
19 to the reporter.

20 CHAIRMAN MITCHELL: We'll do that.
21 We'll have that submitted, and that will
22 be entered into this case.

23 (HEARING EXHIBIT 1, Consolidated Handouts,
24 was marked for identification.)

25 THE WITNESS: If you would like

1 another copy, you can have the one I'm
2 holding.

3 CHAIRMAN MITCHELL: Thank you, sir.
4 Mr. Butler?

5 MR. BUTLER: We would like to call
6 Charles Dunlap, Charles Dunlap, please.

7 CHARLES DUNLAP,
8 having been first duly sworn, testified as follows:

9 A Thank you. My name is Charles Dunlap. My address is No.
10 7 Goose Pond Road, Spring Island, South Carolina. I
11 first want to thank the Commissioners for coming tonight,
12 tell you how much we appreciate this night hearing. I
13 know it takes time to do this and we appreciate it.

14 My purpose here is to not oppose a rate increase but
15 oppose the size of the rate increase. The perils of
16 going third tonight with the previous speakers made many
17 of the points I wanted to make, and that's fine. I don't
18 want to reiterate those points, except to mention them.
19 I have prepared some additional things that I would like
20 the Commissioner to have, please. I think there are ten
21 copies. And the Commissioner can have one. Perhaps the
22 reporter can -

23 CHAIRMAN MITCHELL: If you can
24 speak a little bit closer to the mike, I
25 believe some people are having difficulty

1 hearing you

2 A Certainly. I think there are four points I wanted to
3 cover, and Mr. Bayless and Mr. Drury, I think, have
4 covered quite well the first two points I wanted to make.
5 I have also prepared materials that I have given you,
6 some plots I think that if very quickly you would turn to
7 the first plot in the presentation materials, you will
8 see again that that's the plot of the current CUC rates.
9 It's a plot also of the proposed CUC rates. And those
10 are water usage per month across the bottom and dollars
11 per month bill on the left-hand side. On the top you see
12 the peaked curve. And of course that's the percent
13 increase that the proposed rates would provide for the
14 current rates. The point that Mr. Bayless and Mr. Drury
15 have made - have both made about the size of this
16 increase at this time, I would simply reiterate.

17 Second, I think Mr. Bayless mentioned, and I would
18 also want to reiterate the people who this rate falls
19 disproportionately. And I think that it's correct that
20 most of the households on Callawassie Island and Spring
21 Island are one-person and two-person households.
22 Normally per month one-person household uses about 3,000
23 gallons per month, two-person households about twice
24 that, about 6,000 gallons. And you notice that the
25 percent increase in that particular size of a household

1 is disproportionately high. In fact, in a one-person
2 household it is over 100 percent, falling to 80-percent
3 increase for a two-person household.

4 The third point that I would like to discuss, I
5 would like for you to turn to the last page of that. And
6 it's the same plot, except with the current Beaufort-
7 Jasper County water and sewer water rates added to it.
8 That's the line. And you will see that line down toward
9 the bottom, that essentially overlays the current - the
10 current CUC rates. Beaufort-Jasper Water and Sewerage
11 Authority rates, base rates are \$5 with 332 per thousand.
12 Started from there. And that's the current rate of the
13 residential customers. The point here I think is that
14 that coincides almost exactly with the current rate,
15 that's usage charges.

16 Now, I think I need to say that we have been pleased
17 with the service that we have received from CUC. I have
18 no complaints about CUC and want to commend you for being
19 here doing the job you've done. I, too, am not opposed
20 to the rate hike. I justify that the proposed hike is
21 excessive.

22 One further thing, last thing, and I would
23 appreciate it if you can consider, is that CUC is a very
24 closely-held company. It's a small company. And I am
25 sure that the principals are participating very closely

1 in the operation of the company. If you will look at any
2 other performance statements that CUC has provided to
3 you, there are two numbers that I think need your
4 attention. And one of those is the salaries and wages of
5 about \$265,000 a year that the company pays to it's
6 employees. The second number is the bottom-line number
7 of profitability number, which is projected to be at the
8 proposed rate, I think, of around 125 to \$130,000. Now,
9 if the 125 or \$130,000 level, that should be around 13,
10 14, or 15 percent rate of profitability, I think that
11 that needs - that in and of itself is quite high. I
12 think however you need to take that into consideration
13 with a questions whether any part of the \$265,000 in
14 salaries and wages actually is paid to the principals,
15 the owners of the company. And, if so, I think it would
16 be fair to consider that part of the salaries and wages
17 jointly with the projected profitability of the company
18 because that money is going to the same folks.

19 If there are any questions I would be pleased to
20 answer them.

21 CHAIRMAN MITCHELL: Any questions
22 from the parties?

23 [No Response]

24 CHAIRMAN MITCHELL: Commissioners?

25 EXAMINATION

1 BY CHAIRMAN MITCHELL:

2 Q Could you tell me or do you know how many residents are
3 permanent residents here? What percentage?

4 A Yes. I don't know. There are folks here probably who do
5 know.

6 CHAIRMAN MITCHELL: Thank you.

7 Commissioner Wright?

8 EXAMINATION

9 BY COMMISSIONER WRIGHT:

10 Q How long have you lived on the island?

11 A Pardon me?

12 Q How long have you lived here?

13 A We have had our house here for two years, sir.

14 Q Were you from the area before?

15 A No.

16 Q Where are you from?

17 A St. Louis.

18 Q Thank you.

19 CHAIRMAN MITCHELL: And would you
20 like to make those part of the record?

21 THE WITNESS: Please, I would.

22 CHAIRMAN MITCHELL: We'll do that,
23 and that will be entered as one composite
24 exhibit and be entered into this case
25 without objection.

1 MR. BUTLER: I'd like to call Mr. Ed
2 Pappas, Ed Pappas, please.

ED PAPPAS,
having been first duly sworn, testified as follows:

5 A My name is Ed Pappas. I live on Callawassie Island at
6 Sequoia Court. I've been a resident of the island for a
7 little over seven years.

8 I don't have any statistics or charts to give you.
9 I'm sure you have lots of data that you could go
10 through. But I do have a comment and a question. And
11 it's probably directed to CUC. I'll leave you with the
12 thoughts. The Beaufort County I came to here seven years
13 ago is not the Beaufort County of today or the promise
14 for Beaufort County for tomorrow. The expansion we've
15 seen and the population of over 50-percent growth, the
16 build-out that we've seen, the concern for water needs
17 are issues of growing concerns and how we manage those
18 are concerns. I don't know what the economics were prior
19 to my coming down here that justified a small private
20 water company to Callawassie Island. I certainly
21 appreciate the service that I have been getting from them
22 over the past seven years. I believe the water quality
23 is superior to the water quality other places, at least
24 it tastes a lot better. And I certainly appreciate,
25 deeply appreciate having sewers and running water during

1 a five-year drought, as opposed to wells and septic.

2 So, I commend them in the service that we have been
3 provided. My question - I would ask the question, the
4 economics that justified this small private utility which
5 I see as a pass-through in Jasper who have absorbed the
6 water. I think it's still relevant. I think it's still
7 justifiable. Whether it's separate or a combination it
8 could be achieved by attaching ourselves to Beaufort-
9 Jasper water source. If I could have an answer to that
10 by anybody who understands why we have a private water
11 company.

12 Perhaps it's not a question to be answered tonight,
13 but certainly it's a question.

14 CHAIRMAN MITCHELL: Thank you.

15 Do you have any questions?

16 EXAMINATION

17 BY COMMISSIONER CLYBURN:

18 Q Mr. Dunlap, do you question the amount of the increase?

19 Do you have an alternative in mind? What would you
20 consider fair?

21 A What would I consider fair?

22 Q If you agreed or if you think there should be an increase
23 at all?

24 A Well, I'm going to be experiencing the same increase that
25 was accessed earlier. I'm about at five to 6,000 gallons

1 a month. My rates would go up significantly, whether ten
2 percent or 20 percent, I think it needs to be justified
3 on some solid economics that say this is the best service
4 we can get.

5 Q But you don't have a particular index?

6 A I don't have a particular index in mind.

7 CHAIRMAN MITCHELL: Commissioner Howard?

8 EXAMINATION

9 BY COMMISSIONER HOWARD:

10 Q Mr. Pappas, I don't want to ask you a question, I just
11 wanted to know what percentage of your building capacity
12 breaks out on Callawassie. In other words, what percent
13 of the 100-percent capacity or what situation do you
14 have. Do you know?

15 A I don't know exactly what our current home build-out is.
16 I believe it's maybe, Mr. Adams, maybe they should direct
17 this to you later on. 350 to perhaps 375 homes with a
18 capacity of somewhere around 700, 750. We have some
19 people who can answer that question.

20 CHAIRMAN MITCHELL: Okay. We need
21 to get that on the record. Maybe we could
22 have someone with those numbers get up
23 later. But it's growing significantly.
24 Any other questions? Thank you, sir.
25 Thank you very much.

1 MR. BUTLER: I want to call Mr. Tom
2 Anderson, Tom Anderson.

3 CHAIRMAN MITCHELL: I would like to
4 welcome anyone that has anything to add
5 that hasn't previously signed up, we're
6 going to hear from you, feel free to sign
7 up now.

8 **TOM ANDERSON,**
9 having been first duly sworn, testified as follows:

10 A My name is Thomas M. Anderson. My wife Carol and I have
11 lived on Callawassie Island since August of 1998 at our
12 home at 2 Oyster Court since July of 1999. I am also a
13 past president of Callawassie Island Homeowners
14 Association.

15 I have taken some time to personally review the
16 notice of filing of hearing provided by the Public
17 Service Commission in this case and the testimony that's
18 been submitted by Mr. Burnett and Mr. Perevy, if I have
19 that pronunciation right, for CUC.

20 First, I would like to thank you all for scheduling
21 this hearing so that we have the opportunity to talk
22 about it and not have to drive all the way to Columbia.
23 I think it's all in our best interest to have a reliable
24 and efficient supplier of water and sewage disposal
25 service here on Callawassie and Spring Island. And I

1 think we would expect our current supplier of the CUC to
2 make a reasonable profit for providing these services.

3 However, the rate increase that's been proposed by
4 CUC goes far beyond being reasonable. I did a quick
5 calculation based on our own personal average water
6 usage, not including irrigation, over the last 20 months.
7 And based on an average usage of about 2950 gallons per
8 month, again, not including irrigation, our average
9 monthly bill with the proposed rate increase will
10 increase by 92 percent. And I think as stated previously
11 I think that's a whopping increase, if I could use the
12 word.

13 And I think it was stated previously a family that
14 uses about 2500 gallons per month kind of number would
15 experience an increase of 116 percent. Really, I think
16 that kind of increase really borders on the absurd.

17 After reviewing Mr. Burnett's formal testimony
18 submitted I have several questions regarding a number of
19 items there. Let me just mention a few for your
20 consideration. First, Mr. Burnett makes a point that
21 this is a first request for a rate increase since 1993.
22 It appears that the request for this rate increase is
23 based on financial results from 2004 and only 2004. My
24 question is what have the results been for the years 1993
25 to 2003? What was different about 2004? Is 2004 a

1 novelty? If so, the deep rate increases should not be
2 based upon unique 2004 results. And you need to look at
3 that.

4 Second point, Mr. Burnett claims that the major
5 reasons for the increase, the need for the increase
6 included a higher cost for hauling and processing sludge
7 byproducts by Beaufort-Jasper Water and Sewerage
8 Authority. The addition of an employee 401(k) plan,
9 higher salaries for more employees, increased insurance
10 and fuel costs and reduced customer consumption. Nowhere
11 in his testimony or in Mr. Perevy's testimony did I see
12 any backup data for these specific claims. And I think
13 you need to investigate that further.

14 Furthermore, I will submit that if these rate
15 increases go through there will be a further significant
16 decrease in consumption as people really start to look at
17 their water consumption.

18 I also see no information regarding steps being
19 taken by CUC to improve the overall efficiency of their
20 operation and to reduce their costs. The comments made
21 in Mr. Burnett's testimony about having to hire four
22 employees to maintain aging equipment, that doesn't sound
23 like a good plan for the future.

24 Mr. Burnett said, as has been mentioned before, also
25 claims reduced customer consumption in spite of the

1 increase in the number of customers here on the island.

2 And in answer to your previous question, I think the
3 occupancy here is a little over 420 homes, 423 roughly
4 homes. We're more than half built up here.

5 Mr. Burnett goes on to make the point that
6 irrigation usage has decreased in 2005 compared to the
7 2004 test year that he was using as a reference. The
8 reason is obvious, 2004 rainfall was about 11 inches
9 below normal. In 2005 we have normal or above
10 precipitation so far. What about all the other years
11 between 1995 and 2004? We need to look at more than just
12 one year.

13 Again, as some others have said, I'm not opposed to
14 a reasonable rate increase. But I would encourage the
15 Commission to look closely at the justification for this
16 huge rate increase, and deny it. I would like to thank
17 you for your time and attention.

18 If you have any questions I will try to answer them.

19 CHAIRMAN MITCHELL: Thank you. Any
20 questions? Thank you, sir.

21 THE WITNESS: You're welcome.

22 MR. BUTLER: Mr. Chairman, that
23 concludes the list of witnesses that I
24 have at this time.

25 CHAIRMAN MITCHELL: Now, do we have

1 any other - anyone else who would like to
2 come up, just raise your hand. We would
3 like you to come forward and speak,
4 please. Yes, sir. If you could come up
5 to the microphone, please.

6 **JOHN DUCAS,**

7 having been first duly sworn, testified as follows:

8 A I'm John Ducas. I live at 55 Osprey Circle here in
9 Callawassie. I've lived here four years now.

10 The only thing I would want to mention here is
11 people are saying there are 420 homes now built on
12 Callawassie. And there are other homes on Spring Island.
13 I don't know how many homes there are on Spring Island,
14 that's a good question. So you probably want to get
15 numbers from Spring Island and what that situation is. I
16 don't think I can give it to you.

17 **CHAIRMAN MITCHELL:** Yes, sir,
18 please come forward.

19 **GIL PATRICK,**

20 having been first duly sworn, testified as follows:

21 A My name is Gil Patrick. My address is 4 Magnolia Lane
22 here on Callawassie Island. I also have the pleasure to
23 be employed at Spring Island as the president and general
24 manager. To help clarify the number of homes and the
25 situation at Spring Island, there are a total of 407 lots

1 on Spring Island, all of which have been sold with the
2 exception of nine. We have 221 homes on Spring Island
3 currently. So those are the numbers.

4 I would also like to mention that on behalf of our
5 residents on Spring Island as well as my situation here
6 on Callawassie Island, I have not talked to a single
7 resident on Spring Island or Callawassie Island who would
8 be against a reasonable increase in the services. I
9 think the Commissioners have heard that overall CUC has
10 done a very good job as it relates to providing service
11 and water to its customers.

12 A couple of folks have mentioned Marshall Bishop,
13 and I had the pleasure of working with Marshall, not only
14 on situations at my home here on Callawassie, but also
15 from a business point of view at Spring and his services
16 on behalf of CUC have been excellent.

17 So the matter and reason in which we are here today
18 and the reason we have asked you ladies and gentlemen to
19 come and listen to us today is strictly because the
20 amount of the increase just seems to be exceptionally and
21 exorbitantly high, and we would like the Commission to
22 take that into consideration in making their decision.

23 CHAIRMAN MITCHELL: Thank you, sir.

24 Anyone else?

25 ROGER KENNEDY,

SARA L. QUATTLEBAUM
148 Lake Harbor Drive
Lexington, South Carolina 29072
803.808.0394

1 having been first duly sworn, testified as follows:

2 A My name is Roger W. Kennedy, 88 Osprey Circle,
3 Callawassie Island. I'm familiar with all the financial
4 data, but I heard some numbers used tonight. I heard a
5 number of 125,000 bottom protection.

6 My question deals with only one subject, because I
7 think the former speakers have addressed everything well.
8 And that is, in any business I know of what is required
9 to fund a business besides the operation and future needs
10 for improvements. I would like to know within the
11 financials that I was presented, what portion of their
12 projection would be improvements. And I'm sure over time
13 that may be limited or it may be a more substantial
14 requirement. And certainly to continue the success, I
15 think that CUC's experience as far as serving the
16 population here is going to have to maintain that capital
17 expenditure and they are certainly important ingredients
18 for the future water usage.

19 That is the only point I would like to make. Thank
20 you.

21 CHAIRMAN MITCHELL: Do you have any
22 questions? And I would certainly like to
23 remind you that after the meeting you are
24 certainly free to, if you have any
25 questions, these people are available.

1 The Office of Regulatory Staff, Dukes
2 Scott will be available.

3 Anyone else? Seeing none, then at
4 this time we are going to close this hearing.
5 And I would ask Mr. Butler, if you would, Mr.
6 Butler, give us the dates of the hearing in
7 Columbia, just to remind you.

8 MR. BUTLER: Surely, Mr. Chairman. I have
9 that information. September 8th at 10:30 in
10 the morning at the offices of the Commission.

11 [WHEREUPON, at approximately 8:10 PM,
12 the Hearing was adjourned.]

13
14
15 Sara L. Quattlebaum, *Court Reporter*
16 148 Lake Harbor Drive
17 Lexington, SC 29072
18 803.808.0394

STATE OF SOUTH CAROLINA)
) CERTIFICATE
COUNTY OF LEXINGTON)

BE IT KNOWN THAT I TOOK THE FOREGOING PUBLIC SERVICE
COMMISSION HEARING;

THAT I WAS THEN AND THERE A NOTARY PUBLIC IN AND FOR
THE STATE OF SOUTH CAROLINA-AT-LARGE;

THE FOREGOING TRANSCRIPT OF 38 TYPEWRITTEN PAGES
REPRESENTS A TRUE, ACCURATE AND COMPLETE TRANSCRIPTION OF THE
TESTIMONY SO GIVEN AT THE TIME AND PLACE AFORESAID TO THE BEST
OF MY SKILL AND ABILITY;

THAT I AM NOT RELATED TO NOR AN EMPLOYEE OF ANY OF
THE PARTIES HERETO, NOR A RELATIVE OR EMPLOYEE OF ANY ATTORNEY
OR COUNSEL EMPLOYED BY THE PARTIES HERETO, NOR INTERESTED IN
THE OUTCOME OF THIS ACTION.

WITNESS MY HAND AND SEAL THIS 18TH DAY OF AUGUST,
2005.

SARA L. QUATTLEBAUM
NOTARY PUBLIC FOR SOUTH CAROLINA
MY COMMISSION EXPIRES JULY 12, 2012

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